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## May 2022 Metro level deep-dive- April data

### Quick links:

- 1) **Economic commentary: Jobs market still strong (for now), but where's the wage growth?**
- 2) **Toronto slowdown intensifies, prices slip**
- 3) **Vancouver home sales tumble 22%, prices hold firm for now**
- 4) **Alberta home sales slow but price gains accelerate**

### Key takeaways:

- Unemployment just hit the lowest on record. The economy looks great, but we're still not seeing strong wage growth. And with inflation still running hot, it's only a matter of time before it starts to weigh on pocket books.
- The one soft spot in the latest jobs numbers was construction and real estate. Job losses in those sectors came in at the highest since 2018 (outside of Apr 2020, which kind of doesn't count). It's amazing that the industry is shedding jobs after just a couple soft months in housing. Makes you wonder how much downside there is if real estate really rolls over hard...
- Toronto is now in a full-blown 2017 moment with distressed sales weighing on pricing. Keep an eye on the condo sector where inventory is building quickly and investor economics are deteriorating big time!
- Vancouver sales were down sharply in April, but unlike Toronto, there has not yet been a significant supply response. Prices remain firm for now, but I get the sense things are changing there too.
- Alberta continues to impress. Home sales did slow off an insanely high level, but I think we're just in the early innings of a major outperformance relative to the rest of the country.

## 1) Economic commentary: Jobs market still remarkably strong (for now)...but where's the wage growth?

Housing data may be starting to wobble but the broader economy is still red hot for now. But before getting to that, here's the bad news: Wage growth still sucks, which hurts consumers a lot given how high inflation is currently.

Wages slowed to just 3.4% y/y in April...which puts them sharply negative in real terms:



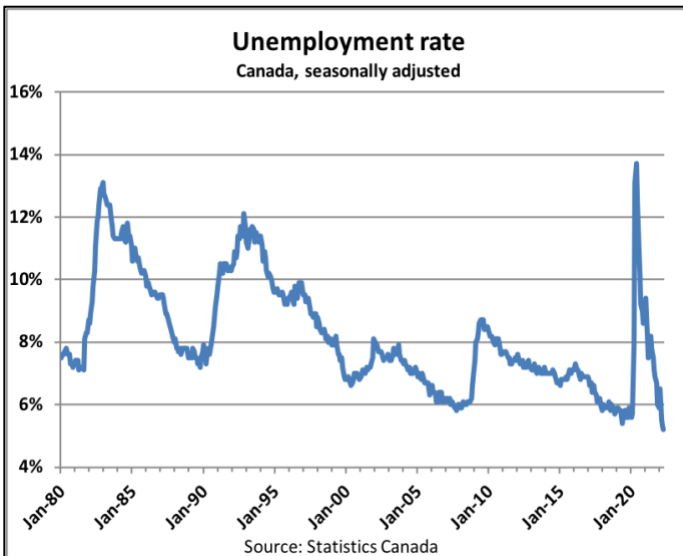
That may not change for a while yet. CFIB's latest Barometer continues to show that businesses are planning to raise prices much faster than wages over the next year:



So that's the bad news, but remember that this is backwards-looking. If we instead look at where wages MIGHT be going in the future, there's plenty of reasons to think that wage growth will be solid later this year.

Consider the latest jobs report last week. Yes, it came in a little light with the economy creating just 15,000 new jobs (markets were expecting 55,000), and yes, full-time positions declined 30k. But let's take a step back:

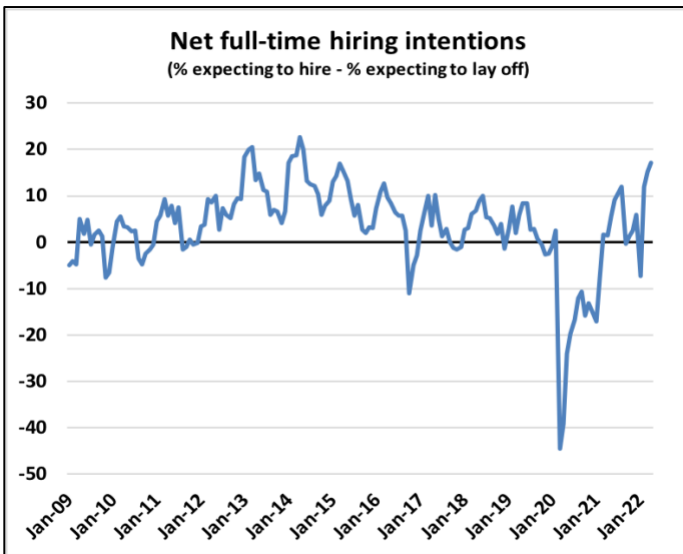
- The unemployment rate just hit an all-time low of 5.2%. It has NEVER BEFORE been this low. EVER! If you've a pulse and a willingness to work, you can have a job tomorrow.



- Job vacancies are still sky-high. There were 826,000 job openings in February, up 300k from one year earlier and up by 500k since early 2019. Consequently a record share of companies are reporting a shortage of skilled labour according to the Canadian Federation of Independent Businesses:

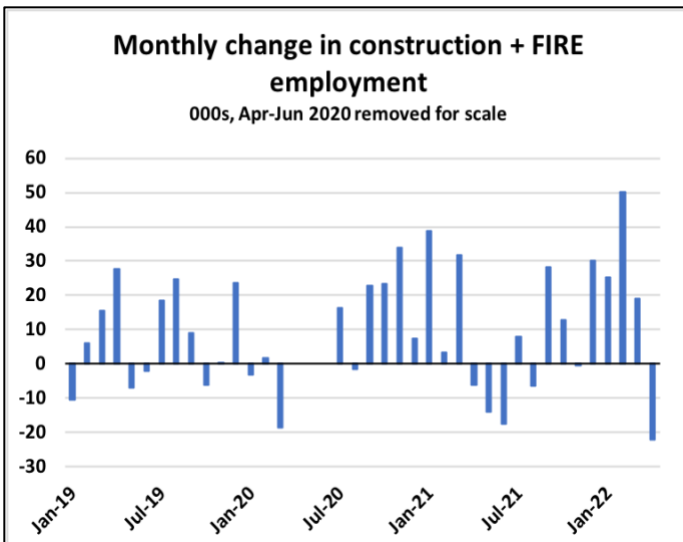


- Business hiring intentions are the strongest they've been since 2014:

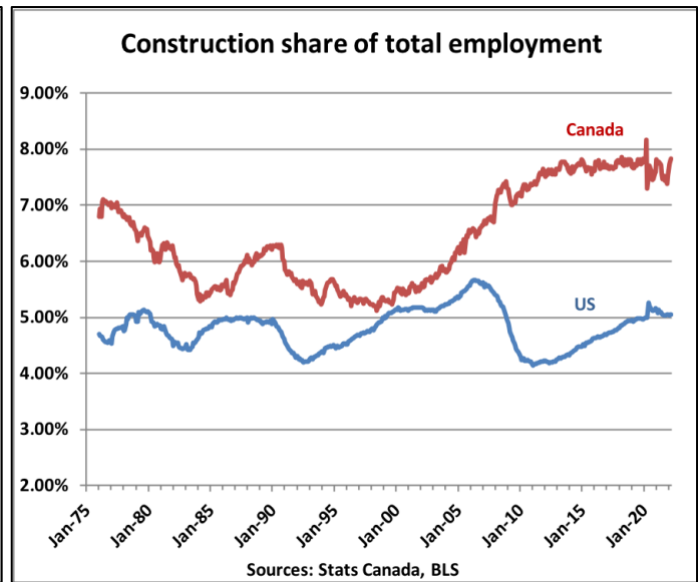
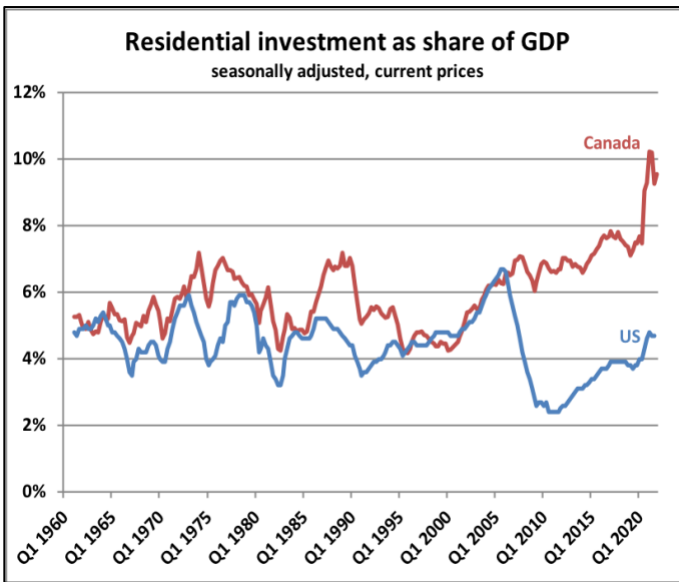


So again this comes back to a question I posed in an earlier report: Where in the world will these workers come from, and how does this all get resolved without higher wages (and lower margins for Canadian companies)?

There was one very interesting takeaway from the latest employment data. Given the rapidly changing housing market in Canada, it's perhaps worth pointing out that the construction and FIRE industries (finance, insurance, real estate) just shed 22k jobs in April. Outside of the steep declines in April 2020, this was the largest monthly decline since 2018:



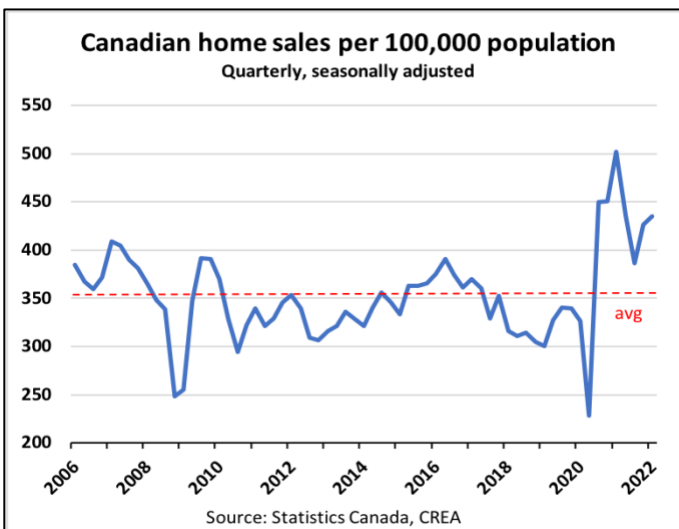
At risk of beating a dead horse, there's a lot to lose if this housing cycle turns down hard which makes the recent slowdown in home sales worth watching closely:



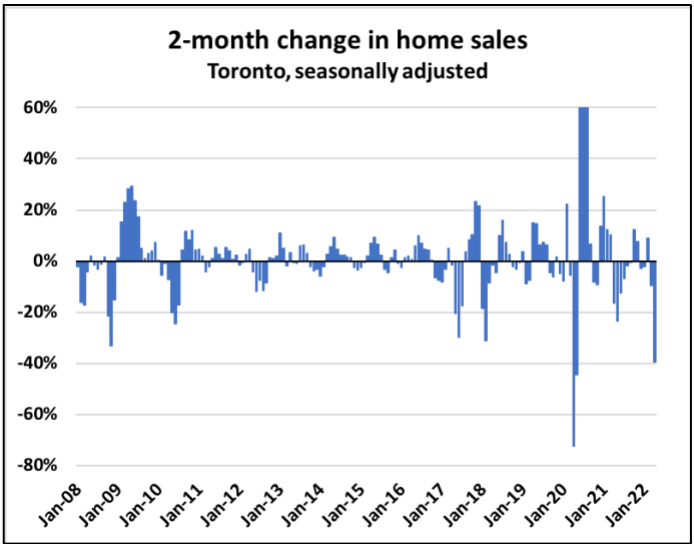
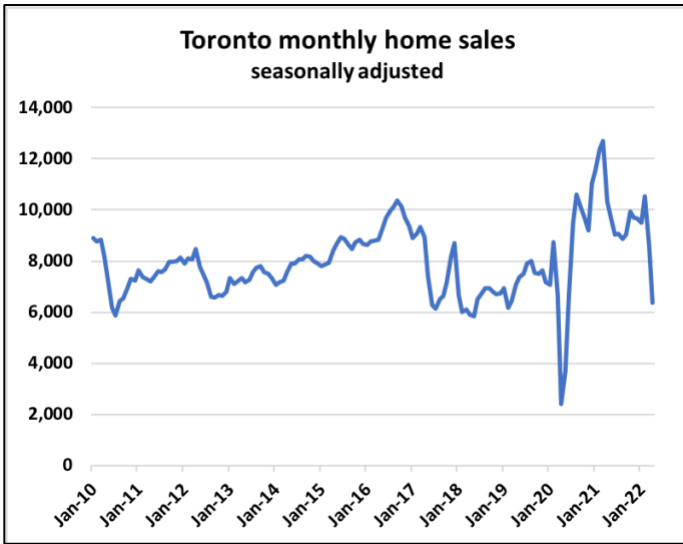
## 2) Toronto house prices slip, sales tumble

### i) Big drop in sales

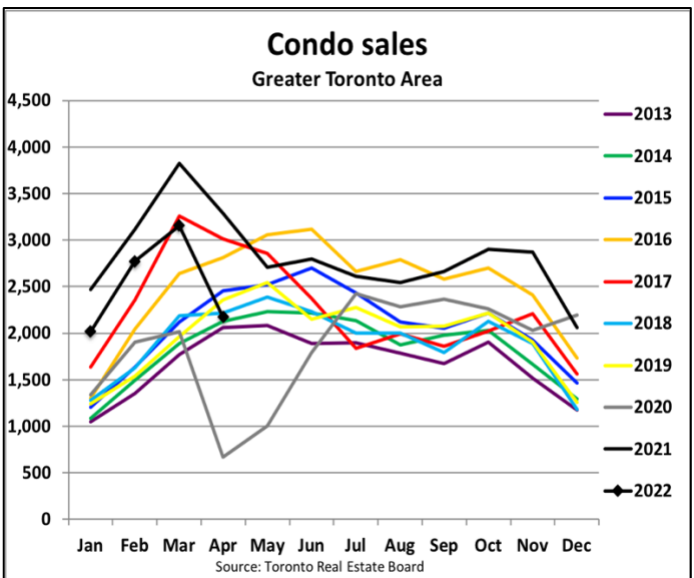
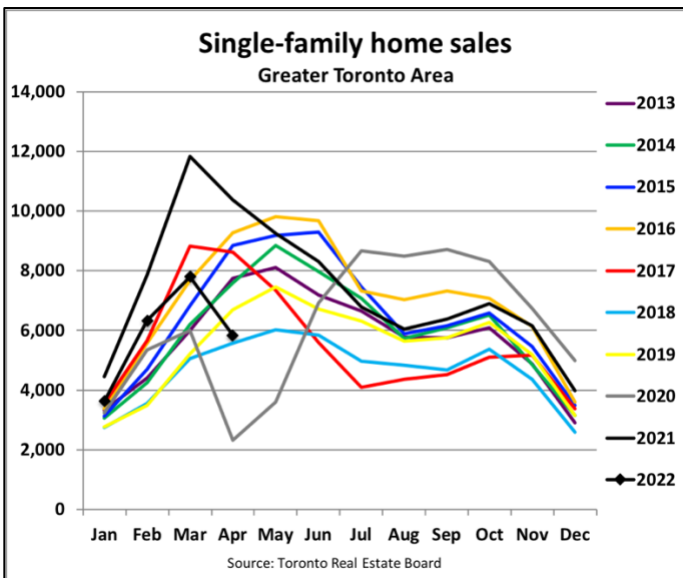
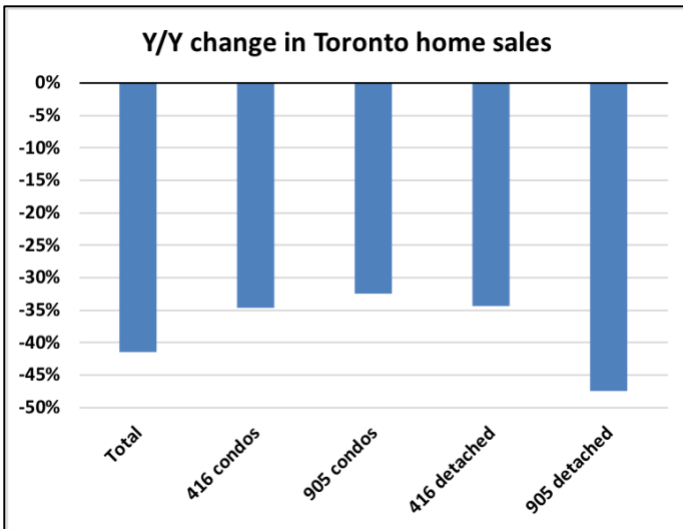
As a reminder, population-adjusted home sales nationally were 25% above long-term norms in Q1. A return to the mean would require a 20% decline from those levels. But throw in some pulled-forward demand and the impact of rising rates, and a more realistic target for the remainder of the year would be 40% below Q1 levels.



The latest Toronto sales data confirmed this step slowdown in demand. Seasonally adjusted sales plunged 26% m/m and have now fallen 40% in the past 2. Not even during the Financial Crisis did we see demand erode that rapidly:

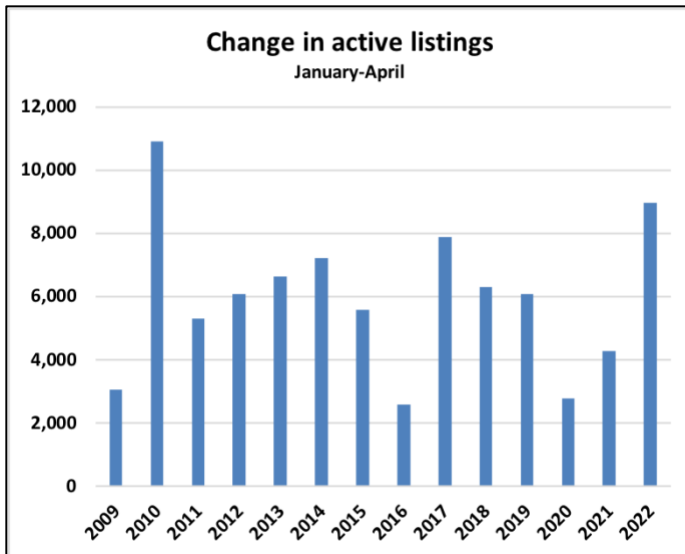


Sales fell 41% y/y including a near 50% drubbing in the detached segment in the 905:

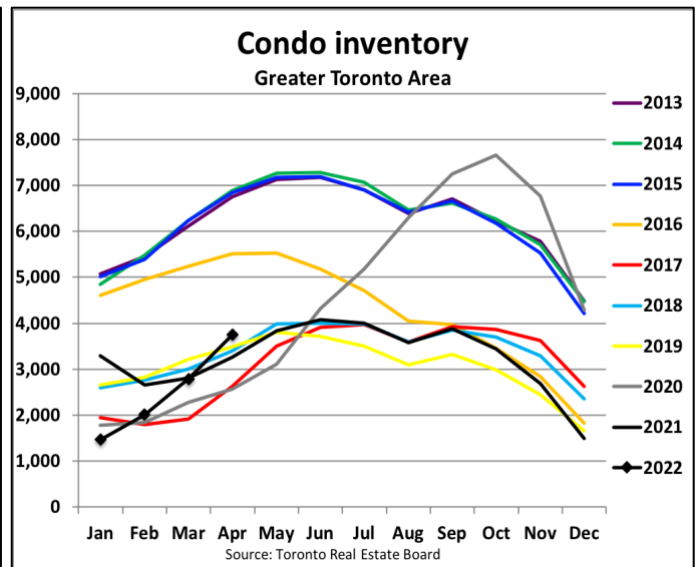
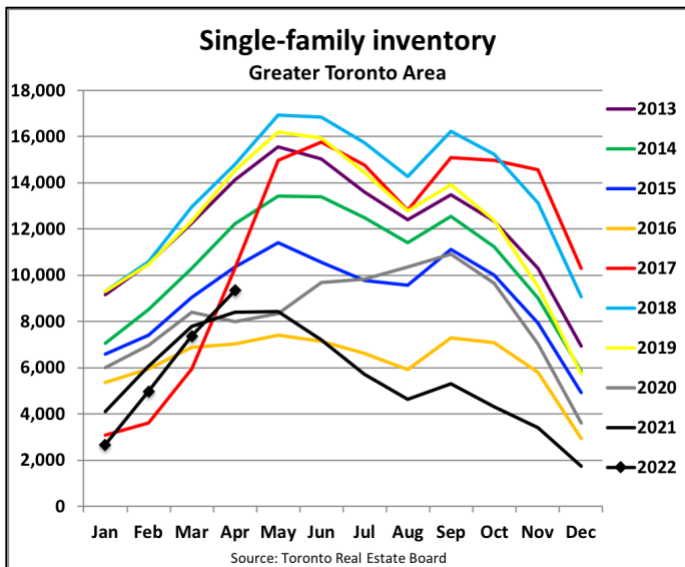


**ii) Inventory still low but building quickly**

Meanwhile, inventory continues to build at the fastest rate since 2010. Active listings in Toronto have risen by 9,000 since January, nearly double the long-term seasonal norm:

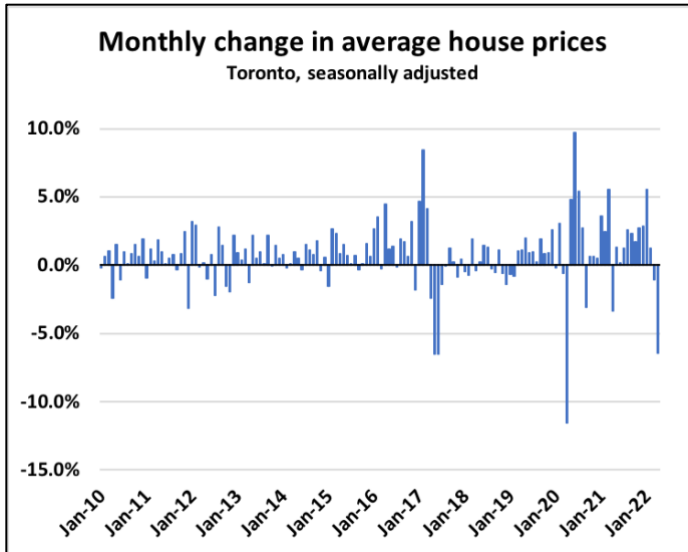


It's coming off a low base to be sure, but both single-family and condo listings are above 2020 and 2021 levels after starting the year at 30-year lows:



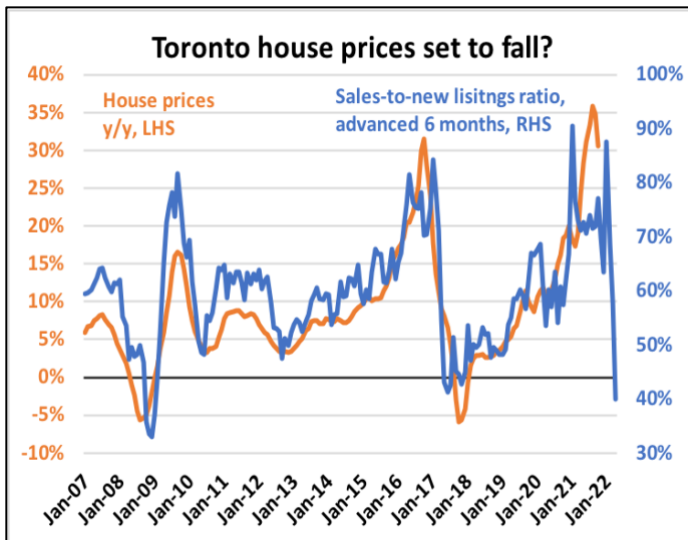
iii) Prices soften

April saw the second largest monthly decline in seasonally adjusted average house prices since at least 2005:



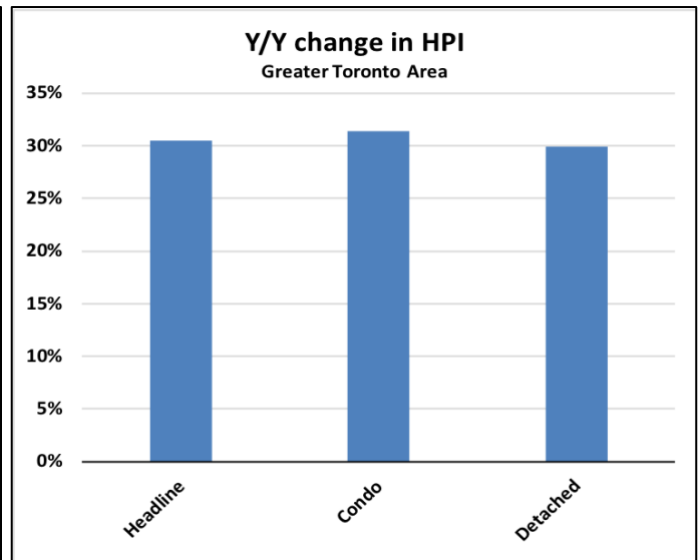
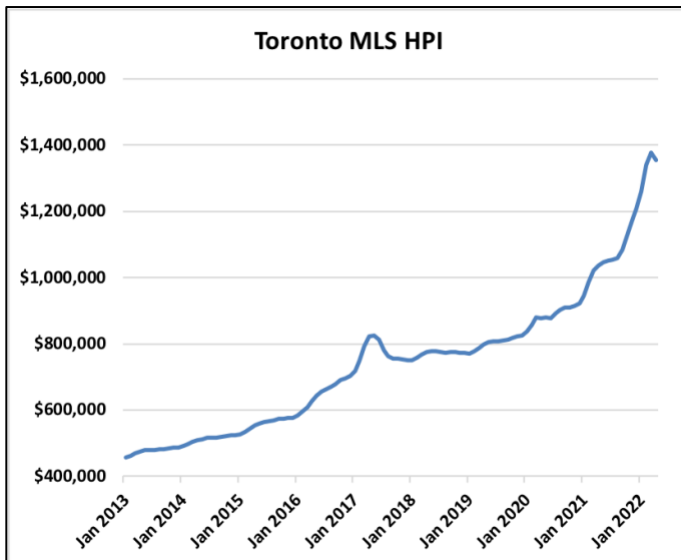
But even seasonally adjusted averages can be subject to significant composition skew, and that was exactly the case last month. Detached home sales plunged 45% y/y and were down 26% sequentially. The only other April that ever had a monthly decline that steep was 2020 during the lockdowns.

But give it a bit of time and we will see significant declines in the more reliable House Price Index. Below is the y/y change in HPI charted against the sales-to-new listings ratio (advanced 6 months). If that ratio holds at current levels, y/y prices will likely be negative by the fall.



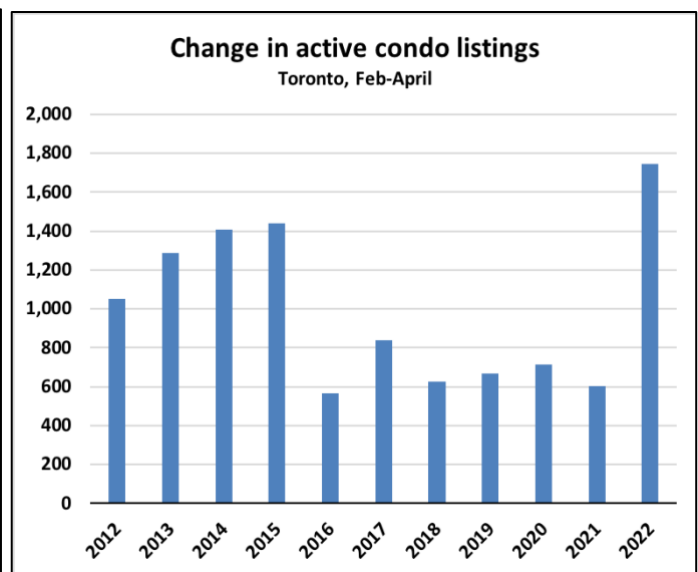
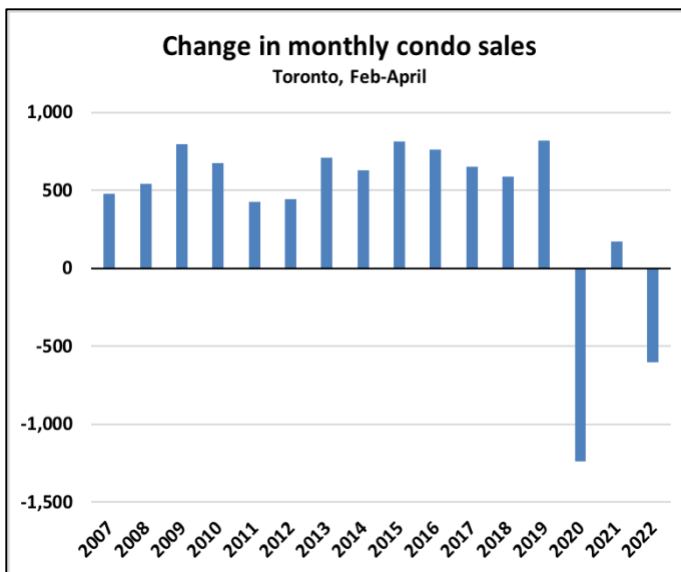
As it stands, the House Price Index is still up 30% y/y but starting to show signs of topping out:



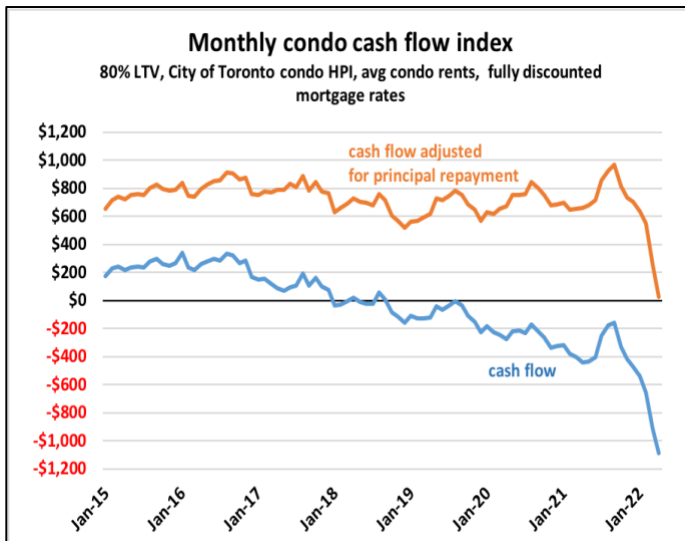


**iv) Potential problems surfacing in the condo market**

Condo sales fell 34% y/y in Toronto. The market clearly peaked in February. Condo sales in April were lower than in February for only the second time on record. Meanwhile the inventory build over that time period is the largest in a decade:



Here's the big issue: Headline cash flows are now negative to the tune of \$1,100 per month. **Meanwhile cash flows adjusted for principal repayment have dropped to zero for the first time on record. There's literally no return to be had in the condo space outside of pure capital appreciation or future rent growth.**

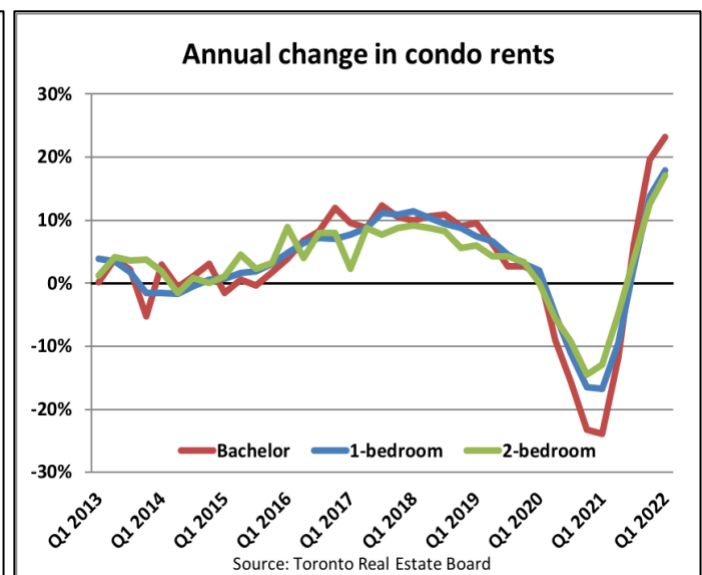
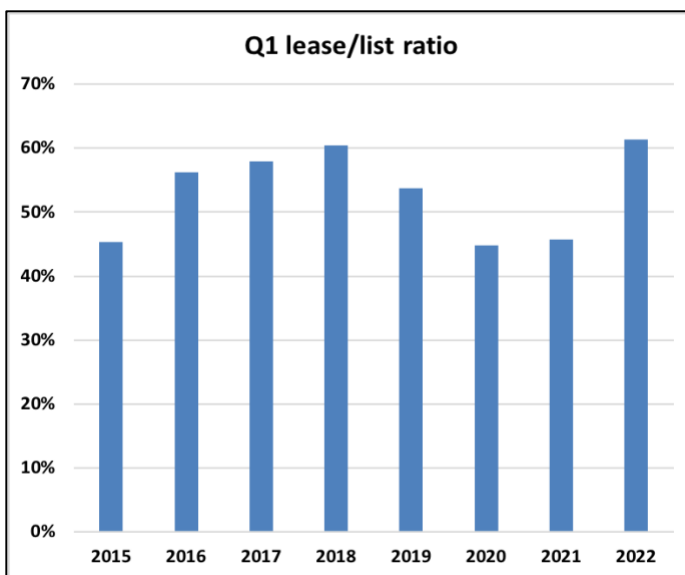


But the problem as it relates to rent growth is that it won't bail out preconstruction condo buyers. It had been the case for years that if investors bought preconstruction, by the time the units completed 4-5 years later, rents had grown enough to cover the mortgage payments. But not anymore. From the Globe and Mail<sup>1</sup>:

[...] Urbanation's Toronto-area data shows the price per square foot has increased 25 per cent in the past two years to \$1,324 by the end of 2021. To cover carrying costs once built – assuming a sub-4 per cent mortgage rate and a 25-per-cent down payment – a condo investor would need to charge \$6.25 per square foot in rent. Right now, newly built condos rent for an average \$3.50 per square foot, which is 80-per-cent lower than break-even.

This is a real problem. I expect we'll see a lot of new condo supply hit the resale market as these units complete and investors realize just how prohibitively expensive they are to hold.

If there's one bright spot it's that the condo rental market remains very strong. The lease/list ratio (a measure of supply and demand) was the highest since at least 2013 in Q1 while prices are recovering strongly:



<sup>1</sup> <https://www.theglobeandmail.com/real-estate/article-condo-assignment-sales-fuelling-canadian-market-speculation/>

**v) What comes next?**

Any time there's an abrupt shift in the market, it creates chaotic conditions and forced sales for a few months. This is because almost all sales at peak were unconditional, and buyers typically had to sell their existing home later to close on the purchase. This means we'll see distressed sales by those who HAVE to sell to close on another property, and it means issues with appraisals given how overextended prices were at peak. Some anecdotes on that front from Toronto realtors:



**Nasma Ali**  
@nasmadotali

I'm hearing stories of appraisals falling short \$50-200K. Some on firm deals.

No one is really seeing the full picture of what's really going on. B/w this & buyers wanting to back out of purchases & sellers price dropping.

Far cry frm January & last 2 yrs.

9:14 AM · Apr 29, 2022 · Twitter for iPhone

57 Retweets 5 Quote Tweets 536 Likes



← **Tweet**

**Condo Chris**  
@CondoChris

Just got off the phone with a couple of real estate brokers and i can confirm that they are freaking the fuck out. Lots of agents with clients that have bought ehomes before they listed theirs and are now stuck. Appraisals not coming in. Buyers offering huge \$ for mutual release

12:48 PM · May 2, 2022 · Twitter for Android

113 Retweets 23 Quote Tweets 531 Likes

We saw this play out in 2017, and I think it's a reasonable play book for what's coming. We'll see a chaotic market for 2-3 months characterized by a steep drop in prices and a sharp rise in inventory. Headlines will turn negative and will significantly weigh on buyer confidence.

Once those forced sales work through the system, likely by mid-summer, we'll have a much better sense of the real underlying trends.

Already those negative headlines are starting to roll in. Case in point, from Bloomberg and ZeroHedge:

# Bloomberg

Wealth | Real Estate

## Toronto Home Prices Drop Most in Two Years as Rates Slam Market

- Sales fall sharply with mortgage rates at highest since 2020
- 'Housing price growth is unsustainably strong': BOC's Rogers

### Toronto Housing Bubble Deflating? Home Prices Drop Most In Two Years On Rising Rates



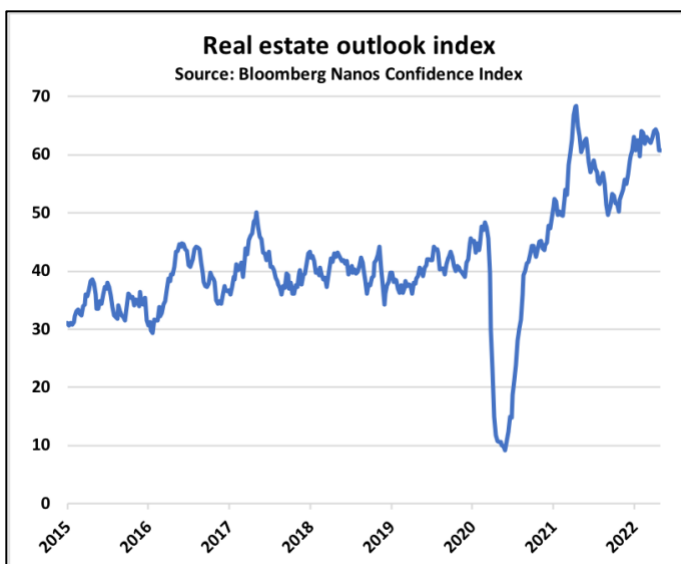
BY TYLER DURDEN

THURSDAY, MAY 05, 2022 - 06:40 PM

Storm clouds gather over the bubbly Toronto housing market as prices slump for the second consecutive month following the Bank of Canada's (BoC) aggressive quantitative tightening program, according to [Bloomberg](#).

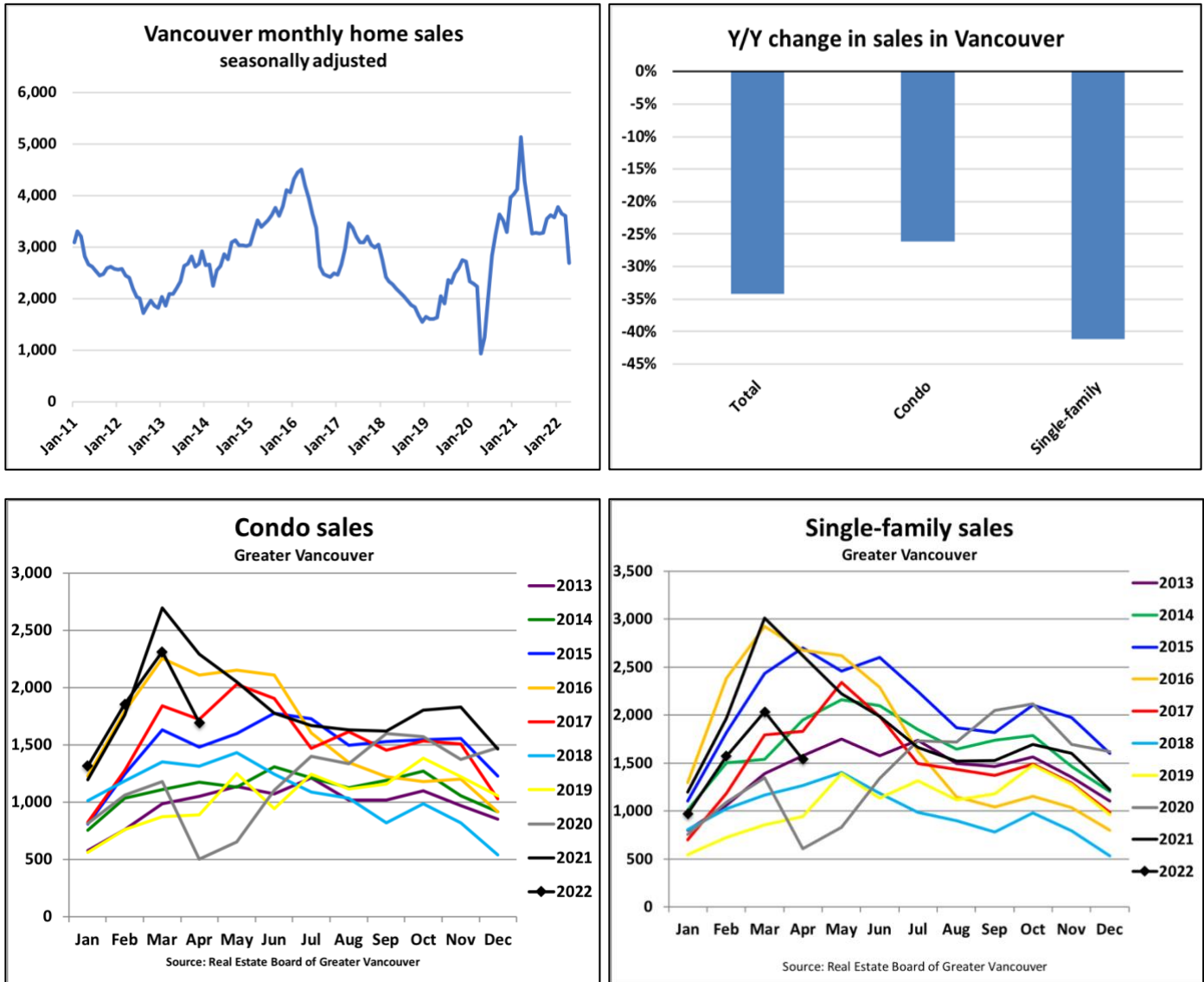
New data from Toronto Regional Real Estate Board shows home prices in the metro area dropped 6.4% in April from the month before to \$936,000. Bloomberg notes this "was the **biggest monthly drop since April 2020**, when the market was largely frozen because of Covid-19 lockdowns."

This absolutely will weigh on sentiment. The average Canadian still has no idea how quickly the market is changing. Consider the latest real estate outlook subindex from Bloomberg and Nanos. This data is as of April 29. Real estate sentiment is still near all-time highs and remains ABOVE prior euphoric levels seen prior to the 2017 downturn. There's a LONG way to fall here:

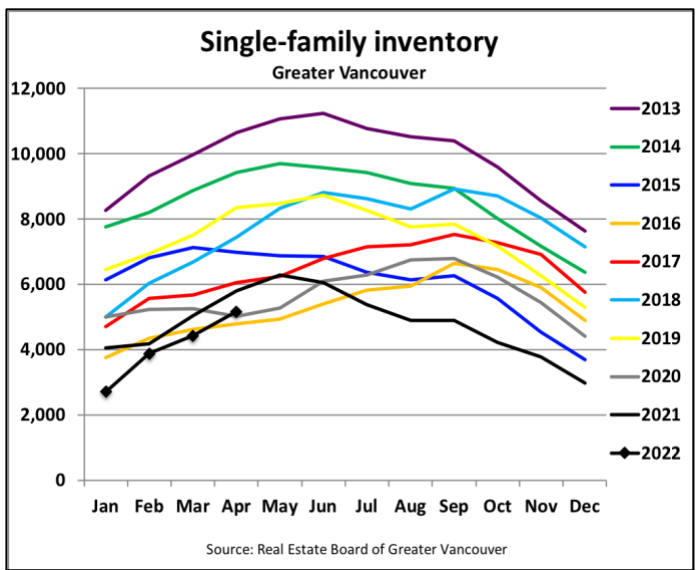
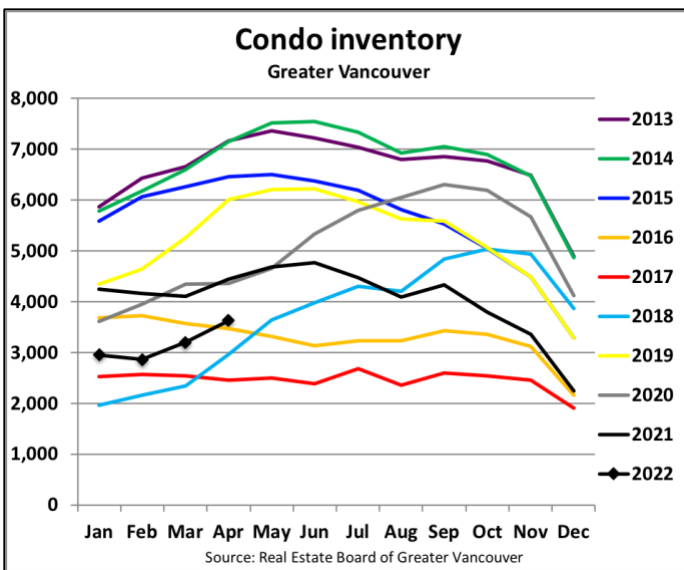
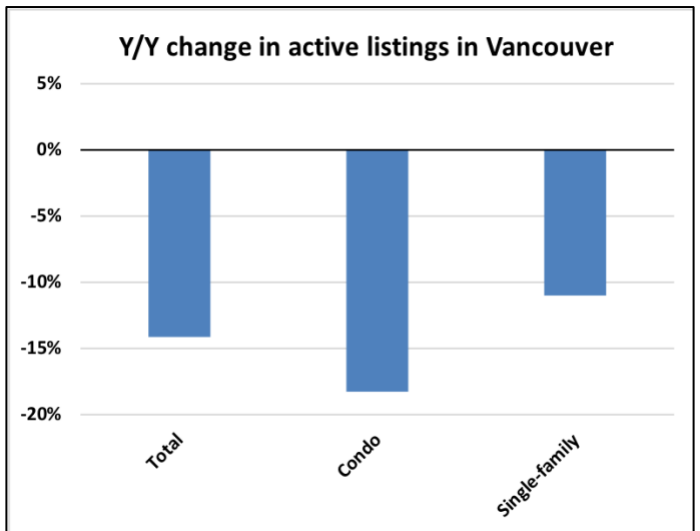
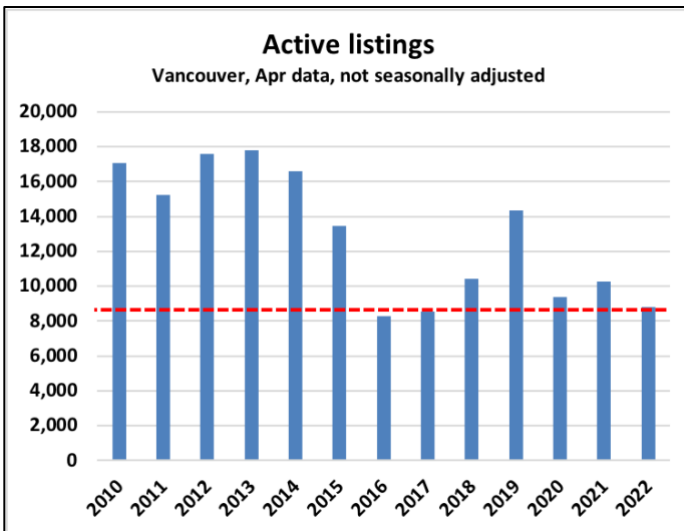


### 3) Vancouver home sales tumble 22%, prices hold firm

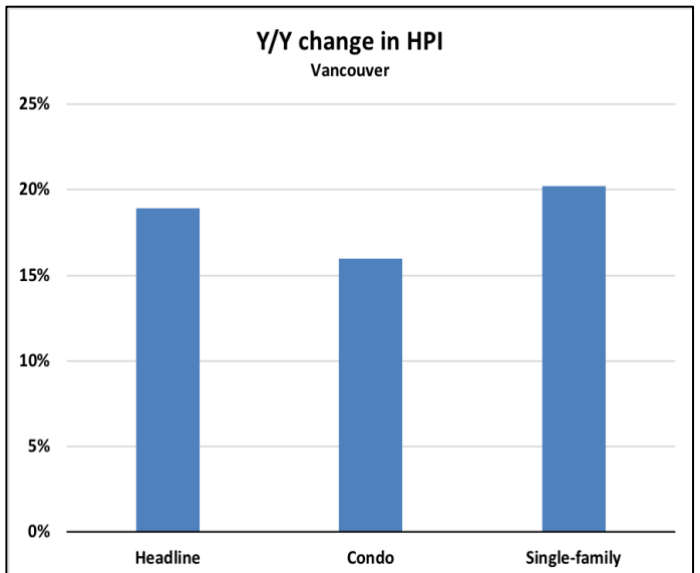
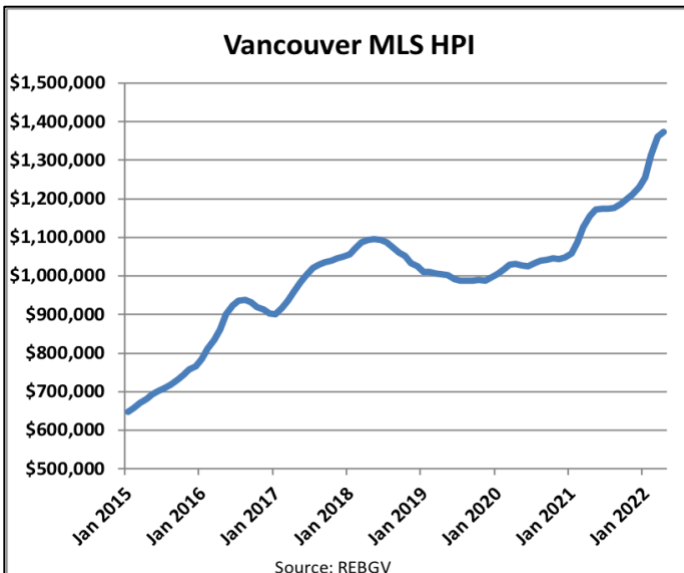
Meanwhile over in Vancouver, sales fell 22% on a seasonally adjusted basis and were down nearly 35% y/y in April:



Active listings are still extremely low and aren't showing the same upward trajectory that we're seeing in Toronto. Total listings were 14% lower than last year, and they remain near all-time lows in the single-family segment:

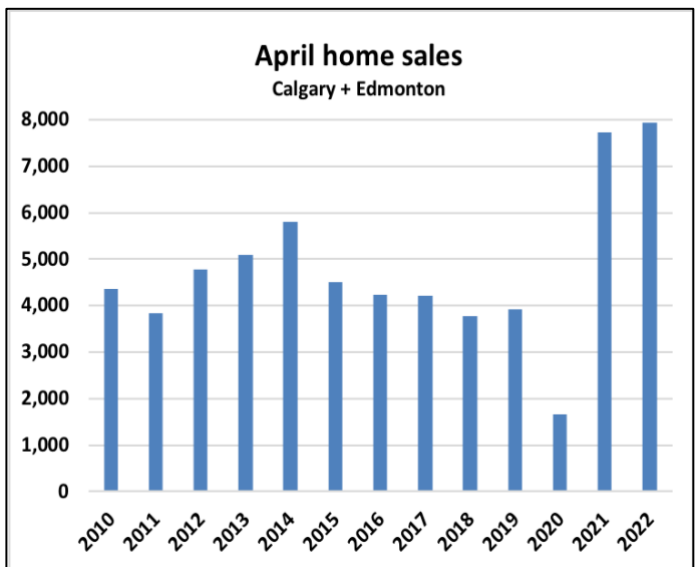
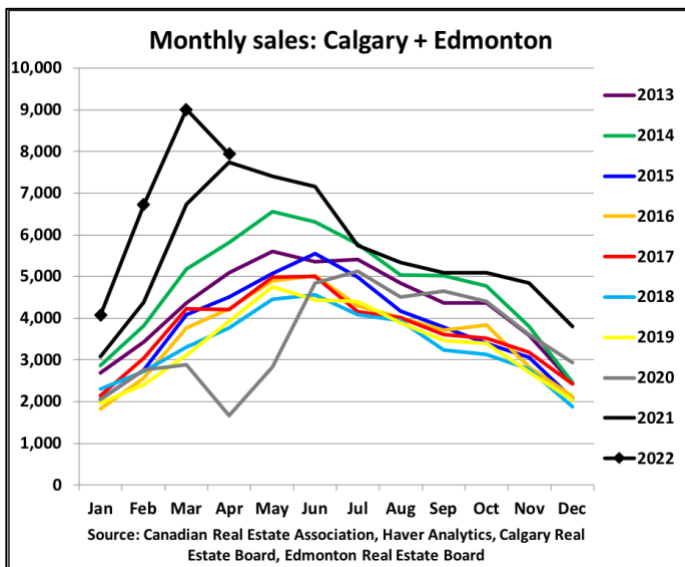
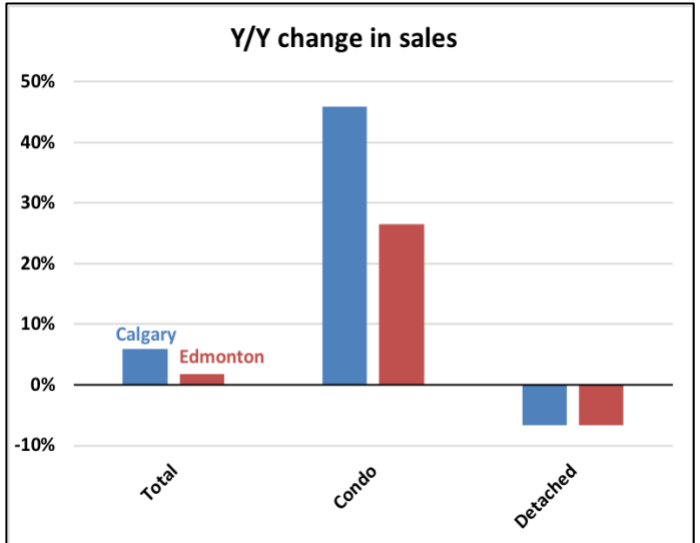
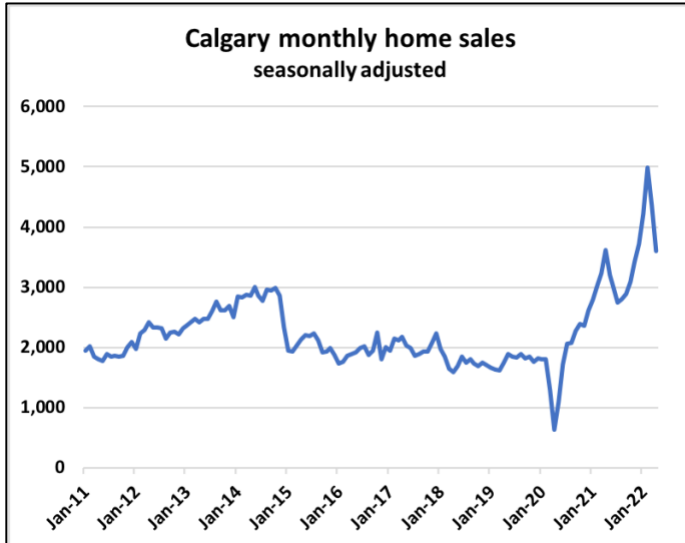


Prices are holding firm, with monthly increase registered across all property types. Prices are up 18% over last year.

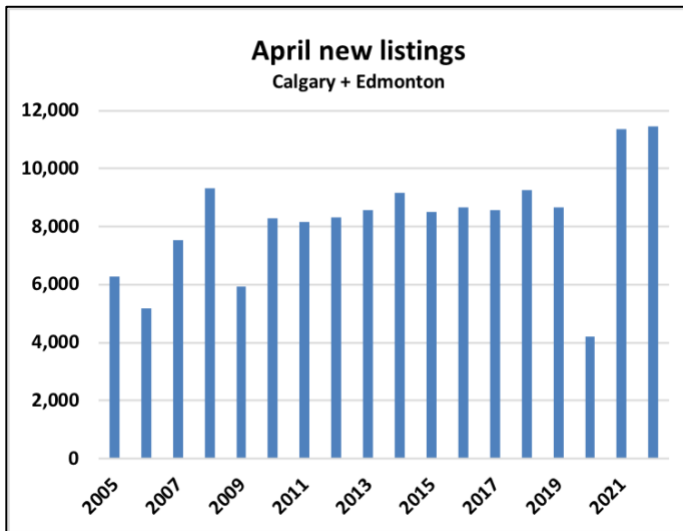
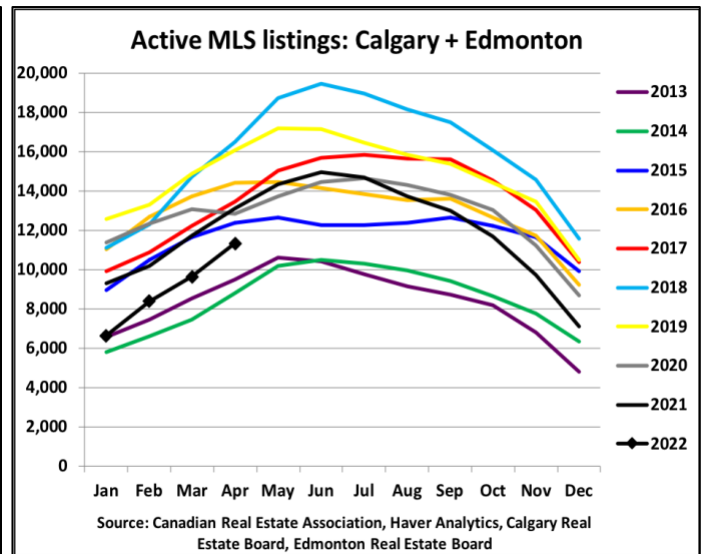
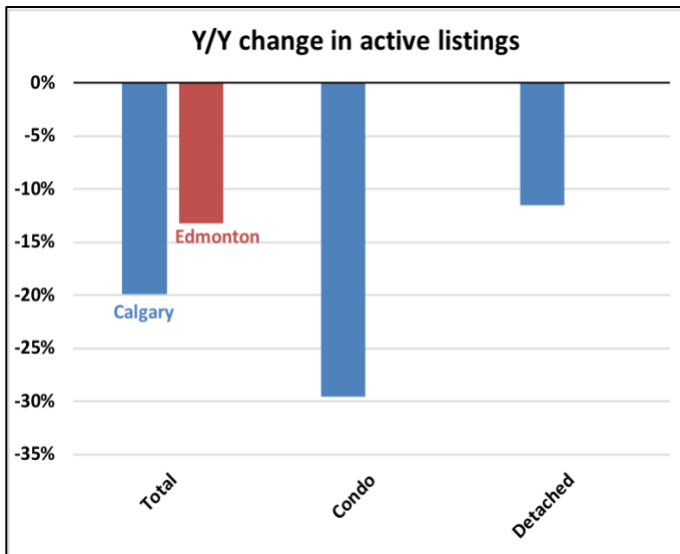


#### 4) Alberta sales slow but prices accelerate

Home sales in Calgary pulled back 17% m/m in April. It was a steep decline, but sales remain extremely strong overall and are still above 2021 levels due to surging condo demand:

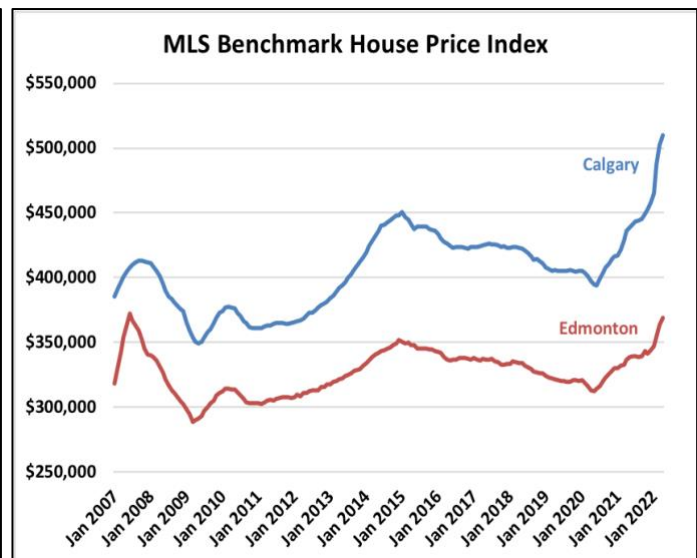
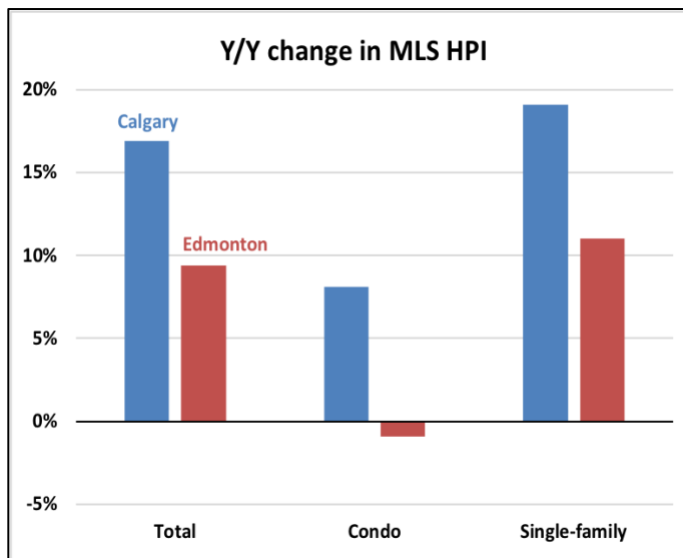


Active listings in Calgary and Edmonton were 20% lower than last year, but we did see an unusually large seasonal build in April in large part due to a surge in new listings that were close to the highest on record for the month:



Prices continue to accelerate, and I think we're still in the early innings of Alberta outperforming the rest of the country. Calgary saw prices jump almost 17% y/y while Edmonton was up nearly 9%:





That's it for now. I'll be back in a couple weeks with the next Edge Report which will take a much deeper dive into macroeconomic and housing trends.

Regards,  
Ben